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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 005599

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OSD/APSA FOR SHINN/SEDNEY/HILL/BASALLA; USFJ FOR
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TAGS: MARR PGOV PINR PREL JA
SUBJECT: DEFENSE REFORM: PROBLEM UNDERSTOOD, SOLUTION NOT
EASY

Classified By: AMBASSADOR J. THOMAS SCHIEFFER, REASONS 1.4 B & D.

SUMMARY

¶1. (SBU) A Kantei-led panel on Ministry of Defense (MOD) reform held its first expert meeting on December 3. The panel, set up in response to bribery scandals involving former Administrative Vice Minister of Defense Takemasa Moriya and defense trader Yamada Corporation executive Motonobu Miyazaki, is charged with delivering an interim report to Prime Minister Fukuda in February 2008 and is comprised of industry, academic, and government experts. The work of the experts will focus on three major themes: ensuring civilian control, establishing a system for managing classified information, and improving defense procurement transparency. While some defense industry insiders welcome the reform efforts and emphasize that the system needs to be fixed, others have expressed concern that changes will be made solely for the sake of satisfying the public desire to "do something." Private sector and government contacts acknowledge, however, that there is strong political will to push for an end to what many see as a system to which corruption is endemic. End Summary.

MOD: "Let's Fix the System"

¶2. (SBU) In the wake of the scandal surrounding former MOD Administrative Vice Minister Moriya and Yamada Corporation executive Miyazaki, in mid-November Chief Cabinet Secretary Nobutaka Machimura announced plans for the creation of a panel of experts to look at ways to reform MOD. Public outcry over bribery allegations, improper handling of data involving Japan's Indian Ocean refueling mission, and allegations of confidential information leaks have all led to calls for significant changes to be made. Machimura stated publicly that the panel, comprised of seven experts plus Machimura and Defense Minister Shigeru Ishiba, will "take the lead in creating a firm reform plan based on the Prime Minister's ideas and instructions."

¶3. (C) While the actual impact the panel will have is unclear, at least some MOD insiders welcome the potential for change. MOD Equipment and Facilities Planning Deputy Director Kazuhito Shiiba, noted that MOD staff expect "significant changes" to come from the panel's

recommendations and that this will have a substantial and positive impact on how MOD does business. Shiiba noted the system of procurement at MOD is the root cause of a problem that unscrupulous individuals have exploited. Likening the purchasing process that currently exists to "buying a black box," Shiiba said a dramatic improvement in transparency was necessary. MOD officials say that the new panel should stimulate MOD's own procurement reform office, established by Ishiba during his last term as Defense Minister. MOD staffers say that this internal team may be forced into "actually doing something" now that there is a higher level of oversight from the Prime Minister's office.

¶14. (C) The public and media are expected to focus on efforts to address the role of trading companies in defense procurement. While welcoming the potential for improved transparency that reforms may bring, Shiiba conceded that "trading companies add value" and shouldn't be summarily associated with corrupt business practices, as some recent media reports have implied.

Trading Company View: Too Much Reform May Mean More Cost

¶15. (C) Japanese private sector contacts echo media reports that Yamada executive Miyazaki was likely involved in illicit activity with Moriya. Itochu Corporation Aerospace and Defense Division FX Project Manager Natsuki Segawa claimed that Miyazaki was "famous" for his "bad dealings" in defense equipment trading and that current media reports only scratch the surface of what Japanese defense industry insiders "know" has been going on for "more than a decade."

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¶16. (C) Segawa admitted that MOD reforms are necessary, but like some MOD interlocutors expressed concern that the Kantei reform panel could "go too far for political reasons." One aspect of defense reform that the media have highlighted has been the lack of extensive procurement expertise at MOD. If defense trading companies involvement in procurement is phased out, some experts say that MOD would have to hire hundreds of new employees to fill the same role. While obviously concerned about the potential loss of business, Segawa told Poloff that eliminating defense trading companies from the procurement process would result in an increase of costs that would ultimately be borne by the Japanese taxpayer. Moreover, they add, MOD would find it difficult to hire a cadre of procurement experts as the "talent doesn't exist."

Comment

¶17. (C) In recent weeks, the scandal surrounding the alleged illicit dealings between former AVM Moriya and defense trader Miyazaki have dominated the headlines almost daily. The Japanese legal process has yet to determine what, if any, wrongdoings actually took place, and what punishment will be meted out is far from certain. Whatever the end result, insiders in both the private and public sector lay the blame for MOD's current problems on a lack of transparency in the procurement process, which has allowed unscrupulous individuals to exploit the system for personal gain. Any real reform will need to address fundamental challenges such as the lack of trained procurement professionals at MOD and distortions caused by Japan's ban on exporting defense articles. Fixing these problems will require political and financial commitments beyond the mandate of the new Kantei panel.

SCHIEFFER